

Message Text

CONFIDENTIAL

PAGE 01 NATO 03990 01 OF 03 242040Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07
NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00
ABF-01 OMB-01 NSC-05 /066 W
-----242111Z 027541 /73

R 242015Z MAY 77
FM USMISSION NATO
TO SECSTATE WASHDC 3790
SECDEF WASHDC
INFO CINCLANT NORFOLK VA
NSSG(US) SHAPE BE
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 01 OF 03 NATO 03990

E.O. 11652: GDS
TAGS: MARR NATO
SUBJECT: INFRASTRUCTURE USE OF REALISTIC CURRENCY
EXCHANGE RATES TO ESTABLISH VALUE OF THE INFRASTRUCTURE
ACCOUNTING UNIT (IAU)

REFS: (A) STATE 113771, 180208Z MAY 77, (B) USNATO 1175,
041010Z MARCH 77.

SUMMARY: WE NOTIFIED THE INFRASTRUCTURE COMMITTEE ON
24 MAY OF POSITION STATED PARA 1, REF A, AND WE WELCOME
OFFER OF ASSISTANCE AND SUPPORT BY TREASURY OFFICIALS.
REQUEST CONCURRENCE IN PROPOSAL OUTLINED PARA 10 BELOW
AND EARLY SUBMITTAL OF DETAILED US PLAN FOR LONG-TERM
SOLUTION TO NATO'S CURRENCY EXCHANGE PROBLEM. END
SUMMARY.

1. ON THE BASIS OF REF A WE ANNOUNCED OUR CONFIRMATION
OF THE SUBJECT DECISION TO THE INFRASTRUCTURE COMMITTEE
AT ITS MEETING OF 24 MAY 77. WE EXPLAINED THAT OUR
AGREEMENT IS TO THE USE OF THE PROPOSED SYSTEM FOR A
ONE-YEAR "INTERIM PERIOD", VICE "TRIAL PERIOD", IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NATO 03990 01 OF 03 242040Z

VIEW OF SECOND THOUGHTS BY TREASURY OFFICIALS SINCE
WE OBTAINED OUR ORIGINAL POSITION IN 1975. WE INDICATED
THE US INTENTION TO PROPOSE IN THE NEAR FUTURE AN
IMPROVED "FAIL SAFE" SYSTEM WHICH WILL NOT DEPEND ON
THE STRENGTH OF ANY INDIVIDUAL CURRENCY OR LIMITED
GROUP OF CURRENCIES.

2. OBJECTIONS OUTLINED IN REF A TO THE INTERIM PROCEDURES ARE WELL KNOWN, AND TO A CERTAIN EXTENT SHARED BY US. OUR RECOMMENDATIONS WERE, THEREFORE, BASED ON THE NEED FOR A TIMELY DECISION TO PERMIT AN IMPROVEMENT, EVEN A SHORT-TERM ONE, OVER THE EARLIER SYSTEM WHEREBY EACH NATION DECLARED THE EXCHANGE RATE OF ITS OWN CURRENCY AGAINST THE IAU.

3. WHEN THE INFRASTRUCTURE COMMITTEE STARTED SERIOUS CONSIDERATION OF THE EXCHANGE RATE PROBLEM IN EARLY 1975, THE NATURAL INCLINATION WAS TO SWITCH TO THE NATO RATE SYSTEM WHICH HAD BEEN IN EFFECT FOR THE NATO MILITARY BUDGET (ABOUT HALF THE COST OF THE INFRASTRUCTURE PROGRAM) SINCE 1973. WHILE THE ACCOUNTING PROBLEMS WERE NOT IDENTICAL IN THE TWO BUDGETS, THEY WERE SUFFICIENTLY SIMILAR TO SUGGEST THAT NATIONS WOULD AGREE TO EXTEND THE SYSTEM TO WHICH THEY HAD AGREED AND WHICH HAD GIVEN SATISFACTORY RESULTS FOR TWO YEARS. ITALY AND THE UK, WHICH HAD BEEN PROFITING FROM DECLARATION OF THEIR CURRENCY VALUES AS MUCH AS 50 PCT ABOVE BANK RATES, BOTH MADE STRONG PITCHES FOR ADOPTION OF SDR OR "NATO CURRENCY BASKET" SOLUTIONS WHICH WOULD, BY THEIR CALCULATIONS, LEAVE THEM WITH LESS OF A PAYMENT IN ARREARS THAN WOULD THE NATO RATE SYSTEM.

4. HAVING AGREED ON INSTRUCTIONS TO ESTABLISHMENT OF THE NATO RATE SYSTEM FOR MBC, AND HAVING EXAMINED THE MAJOR INFRASTRUCTURE ACCOUNTING PROBLEMS WHICH

CONFIDENTIAL

PAGE 03 NATO 03990 01 OF 03 242040Z

WOULD BE CAUSED BY ADOPTION OF A NATO BASKET, WE WERE SUFFICIENTLY UNSURE OF A "PROPER" SOLUTION TO REQUEST TREASURY ASSISTANCE IN FORMULATION OF A NEGOTIATING POSTURE. AT A MEETING HELD AT TREASURY IN JUNE 75 (PARA 2, REF B), WE OUTLINED THE VARIOUS POSITIONS OF NATO GOVERNMENTS AND NOTED THAT NON-EUROPEAN "SNAKE" NATIONS SUCH AS CANADA, NORWAY, GREECE, AND TURKEY, WHICH WERE IN THE SAME POSITION AS THE US, SUPPORTED THE USE OF THE "SNAKE" AS THE BETTER METHOD OF STABILIZING THE "NOTIONAL VALUE" OF THE IAU IN CONSONANCE WITH THE NATO DECISION IN C-M(68)3 TO MAINTAIN THE VALUE OF CONTRIBUTIONS "IN REAL TERMS" TO THE INFRASTRUCTURE PROGRAM. ALL OF THE OBJECTIONS NOW RAISED IN PARA 2, REF A, WERE DISCUSSED AND A CONSENSUS DEVELOPED THAT NATO PROBLEMS WERE SUFFICIENTLY DISTINCT FROM THOSE OF OTHER INTERNATIONAL ORGANIZATIONS TO WARRANT SUPPORT OF THE NATO MAJORITY PREFERENCE FOR ALIGNING THE INFRASTRUCTURE ACCOUNTING PROCEDURE ON THAT OF THE NATO MILITARY BUDGET.

5. ON THE BASIS OF THE ABOVE UNDERSTANDING, WE JOINED THE MAJORITY AND IN THE PERIOD JULY 75 - MARCH 77 PREVAILED OVER THE ITALIAN AND UK ARGUMENTS FOR THE NATO BASKET SYSTEM. US REPS HAVE RECOGNIZED THAT THE SDR AND NATO BASKET SYSTEMS ARE THE MOST "THEOLOGICALLY" PURE (THE STATEMENT IN PARA 12, AC/4-D/2472 IS OF US ORIGIN). WE BELIEVE, HOWEVER, THAT ITS APPLICATION WOULD LEAD TO IMMENSE ACCOUNTING DIFFICULTIES CREATED BY THE FACT THAT THE VALUE OF EVERY NATO CURRENCY WOULD FLUCTUATE EACH TIME THAT ANY NATO CURRENCY

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 NATO 03990 02 OF 03 242049Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07
NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00
ABF-01 OMB-01 NSC-05 /066 W
-----242111Z 027671 /73

R 242015Z MAY 77
FM USMISSION NATO
TO SECSTATE WASHDC 3791
SECDEF WASHDC
INFO CINCLANT NORFOLK VA
NSSG(US) SHAPE BE
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 02 OF 03 NATO 03990

CHANGED ITS VALUE IN TERMS OF OTHER NATO CURRENCIES. WE ALSO ARGUED (STRONGLY SUPPORTED BY CANADA) THAT, SINCE INTERNATIONAL STAFF CALCULATIONS INDICATED THAT THE SDR HAD DEPRECIATED SINCE ITS INCEPTION BY SOME 20-25 PCT IN TERMS OF NATO RATES, ADOPTION OF AN SDR OR NATO BASKET WOULD LEAD TO ADDITIONAL EROSION OF THE VALUE OF THE INFRASTRUCTURE PROGRAM FUNDS WHICH WERE ALREADY SO STRAINED AS TO REQUIRE A MAJOR AUGMENTATION IN THE CURRENT FIVE-YEAR CEILING AGREEMENT.

6. IN VIEW OF THE ABOVE, WE CAN EXPECT CONSIDERABLE OPPOSITION FROM OUR ALLIES (EXCEPT THE UK AND ITALY) TO OUR REVERSAL OF FIELD, PARTICULARLY SINCE THE PRESENT AGREEMENT HAS LED TO THE USEFUL ACTIONS OF THE UK AND ITALY IN PERMITTING THEIR CURRENCIES TO BE REALISTICALLY VALUED AT 50-60 PCT OF THEIR PREVIOUSLY DECLARED VALUES. BY NATO CUSTOM, UNLESS WE CAN ACHIEVE

UNANIMOUS AGREEMENT TO EITHER CONTINUATION OF THE NATO RATE SYSTEM (NOW OPPOSED BY THE US) OR TO THE NATO BASKET SYSTEM, WE WILL REVERT NEXT YEAR TO THE OLD SYSTEM UNDER WHICH NATIONS DECIDE ON THE VALUE OF THEIR OWN CURRENCIES IN TERMS OF THE IAU, THE WORST
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NATO 03990 02 OF 03 242049Z

POSSIBLE SOLUTION. WE ASSUME THIS IS NOT AN OPTION ACCEPTABLE TO THE US. IT BEHOOVES US, THEREFORE, TO COME UP WITH SOME VERY COGENT, CONVINCING REASONING FOR OUR NEW PREFERENCE. WE MUST ABOVE ALL CONVINCE OUR ALLIES THAT ACCOUNTING WOULD NOT BECOME PROHIBITIVELY MORE DIFFICULT UNDER A NATO BASKET SYSTEM AND THAT, PARTICULARLY DURING THE 1973-77 PERIOD OF FLOATS, THE VALUE OF THE INFRASTRUCTURE PROGRAM WOULD NOT HAVE DEPRECIATED BY 20-25 PCT. THIS LATTER OBJECTIVE CAN BE OBTAINED, PERHAPS, BY AGREEING THAT THE CONVERSION, IF AND WHEN AGREED, FROM NATO RATES TO NATO BASKET, WOULD TAKE PLACE AT THE VALUES THEN EXISTING UNDER THE NATO RATE SYSTEM.

7. SINCE THE REASONS FOR THE US POSITION CONTAINED IN PARA 2, REF A, HAVE ALL BEEN CONSIDERED BY THE COMMITTEE, WE MUST FORMULATE OTHER JUSTIFICATION. SPECIFIC ARGUMENTS AGAINST THOSE REASONS ARE KEYED TO THE SUBPARAS OF REF A:

A. WHILE THE BELGIAN FRANC IS THE DENOMINATOR FOR THE INTERIM SYSTEM, IT IS MERELY REPRESENTATIVE OF THE "SNAKE CURRENCIES", AND THUS ULTIMATELY OF THE DM. THE COMMITTEE RECOGNIZED THAT NO MONETARY VALUE WAS ETERNAL, BUT THE "SNAKE" WAS CONSIDERED TO BEST REPRESENT THE NOTIONAL "REAL VALUE" OF THE IAU ON WHICH WAS BASED THE AGREEMENT IN C-M(68)3. SHOULD THE CURRENT SITUATION CHANGE TO ANY SUBSTANTIAL DEGREE, THE IAU WOULD THEN BE PEGGED ON THE CURRENCY OR CURRENCIES THEN BEST "MAINTAINING THEIR REAL VALUE".

B. THE COMMITTEE HAS GENERALLY AGREED THAT WHEN AND IF NATO SHOULD GO TO A BASKET CURRENCY SYSTEM, SUCH A SYSTEM SHOULD NOT BE BASED ON NATIONAL CONTRIBUTIONS BUT RATHER ON THE CURRENCIES IN WHICH THE PROGRAM FUNDS WERE SPENT WHICH ARE THE ULTIMATE DETERMINANT
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NATO 03990 02 OF 03 242049Z

OF PROJECT COST AND PROGRAM VALUE. OF THE FUNDS SPENT

WITHIN HOST COUNTRIES (74 PCT OF TOTAL), SOME 40 PCT IS SPENT IN DMS AND 15 PCT IN OTHER "SNAKE" CURRENCIES. THUS, THE "SNAKE" DOES HAVE A SORT OF PRIMACY IN THE INFRASTRUCTURE PROGRAM. LESS THAN .05 PCT OF THE PROGRAM FUNDS ARE SPENT ON PROJECTS IN THE US. IN COMMITTEE DISCUSSIONS THE REQUIREMENT TO MAINTAIN THE VALUE OF THE PROGRAM WAS NOT RELATED TO EQUITY, WHICH WAS CONSIDERED TO BE MET BY MAINTAINING THE REAL NATIONAL SHARES OF THE EXPENDITURE IN ACCORDANCE WITH COST SHARING AGREEMENTS. IT CANNOT BE SAID THAT THE INTERIM SYSTEM IS SOMEHOW COERCING THE NATIONS INTO INCREASING THE VALUE OF THE PROGRAM WHEN ALL NATIONS HAVE AGREED NOT ONLY TO PEGGING THE IAU TO THE ALLIANCE'S STRONGEST CURRENCY, BUT ALSO HAVE NOW AGREED TO INCREASE THE NUMBER OF IAUS COMMITTED TO THE PROGRAM (DPC-VR(77)LL, PART III). IN THE CASE OF THE US, IT SHOULD BE NOTED THAT WE HAVE ALWAYS SUPPORTED A LARGER INFRASTRUCTURE PROGRAM THAN OUR ALLIES WERE WILLING TO FUND, THUS THE INTERIM SYSTEM CAN BE SAID TO TEND TOWARD SATISFACTION OF US POLICY CONCERNING THE PROGRAM.

C. THE PROGRAM IS FUNDED IN TERMS OF IAUS AND IT CANNOT BE MAINTAINED, THEREFORE, THAT ANY FLUCTUATION OF THE IAU WOULD LEAD TO THE US PAYING MORE THAN ITS "SHARE" IN US DOLLARS. UNDER EITHER THE INTERIM SYSTEM OR AN SDR OR BASKET SYSTEM, WE WOULD PAY EXACTLY OUR AGREED SHARE OF THE COST OF THE CURRENCIES EXPENDED. NOR WOULD WE EVER OBLIGATE MORE THAN THE FUNDS CON-

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 NATO 03990 03 OF 03 242055Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07
NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00
ABF-01 OMB-01 NSC-05 /066 W
-----242111Z 027775 /73

R 242015Z MAY 77
FM USMISSION NATO
TO SECSTATE WASHDC 3792
SECDEF WASHDC
INFO CINCLANT NORFOLK VA
NSSG(US) SHAPE BE
USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 03 OF 03 NATO 03990

TEMPLATED BY CONGRESS. THIS IS TRUE SINCE WE "INFORM" CONGRESS OF OUR FIVE-YEAR INFRASTRUCTURE FUNDING AGREEMENT (GENERALLY DEPLORING THAT THE TOTAL WAS SO LOW), BUT WE SEEK APPROPRIATIONS EACH YEAR ON THE AMOUNT TO BE OBLIGATED IN THAT YEAR WITHOUT REFERENCE TO THE FIVE-YEAR AGREEMENT. ON THOSE OCCASIONS WHEN SOME OF THE AUTHORIZATION IS SOUGHT TO OFFSET DOLLAR FLUCTUATIONS, WE SO STATE IN OUR JUSTIFICATION, AND THIS FACT WOULD NOT VARY UNDER ANY OF THE SYSTEMS CONSIDERED, ONLY THE AMOUNTS WOULD CHANGE.

8. IT MAY VERY WELL BE TRUE THAT THE BEST LONG-TERM SOLUTION WILL TURN OUT TO BE A "NATO BASKET CURRENCY", BUT THERE IS SOME DOUBT THAT IT SHOULD BE ON THE BASIS SUGGESTED IN PARA 3, REF A, IRRESPECTIVE OF THE COMMITTEE VIEW REFLECTED IN PARA 7.B ABOVE (I.E., A "BASKET" SYSTEM SHOULD BE BASED ON EXPENDITURE CURRENCIES RATHER THAN CONTRIBUTOR CURRENCIES). IF WEIGHTS WERE ASSIGNED ACCORDING TO EXPENDITURE PATTERNS, NEITHER THE US NOR CANADIAN DOLLAR WOULD HAVE ANY EFFECT, WHILE GREEK, TURKISH, AND ITALIAN CURRENCIES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NATO 03990 03 OF 03 242055Z

WOULD EACH HAVE A WEIGHT OF ABOUT 11 PCT. THUS, WHILE THE SUGGESTION MIGHT BE CONSISTENT WITH IMF PROCEDURES, IT WOULD LEAD TO ELIMINATION OF ONE OF THE ALLIANCE'S LEADING CURRENCIES. DURING PREVIOUS DISCUSSIONS, THE ITALIANS HAD PROPOSED AS A FALLBACK POSITION THAT THE IAU BE BASED ON THE US DOLLAR (6-10 PCT DISCOUNT AGAINST THE BF) AND THE UK AGREED THAT THE DOLLAR SHOULD HAVE A HEAVY WEIGHT IN AN EVENTUAL BASKET. HAD ITALY AND THE UK HELD THAT POSITION, WE WERE CONTEMPLATING A PROPOSAL TO BASE THE IAU 50 PCT ON DOLLARS AND 50 PCT ON DM. IN SHORT, IN ORDER TO CONSTRUCT A REALISTIC "BASKET SYSTEM", WE BELIEVE WE WOULD HAVE TO FIND A WAY TO PLUG IN BOTH THE DM, REPRESENTING NATO'S CURRENTLY STRONGEST CURRENCY, AND THE US DOLLAR, REPRESENTING NATO'S STRONGEST ECONOMY.

9. FINALLY, IF WE ARE TO CONVINCE OUR ALLIES, WE MUST EXPLAIN WHY THE US IS SUDDENLY AND URGENTLY OPPOSED TO A SYSTEM WHICH HAS BEEN WORKING SATISFACTORILY ON ANOTHER NATO BUDGET SINCE 1973. WE SHOULD, THEREFORE, BE READY TO CONSIDER APPLICATION OF WHATEVER NEW SYSTEM IS EVOLVED TO BOTH THE NATO MILITARY AND CIVIL BUDGETS AS WELL AS TO THE INFRASTRUCTURE PROGRAM.

10. IN VIEW OF THE ABOVE, AND TO AVOID RECURRENCE OF THE PRESENT MISUNDERSTANDING, WE SUGGEST THAT TREASURY

FURNISH US A PROPOSAL TAKING INTO ACCOUNT THE ABOVE HISTORY AND REASONING. AFTER PRELIMINARY SCREENING AND COORDINATION WITH THE NATO INTERNATIONAL STAFF, WE WOULD FURNISH COMMENTS TO WASHINGTON AND SET UP A MEETING OF THE INFRASTRUCTURE COMMITTEE WORKING GROUP WHICH HANDLES THIS ISSUE (WG24). WE ASSUME THAT THE OFFER OF ASSISTANCE IN PARA 4 OF REF A WOULD NOT ONLY MEAN PREPARATION OF A PROPOSED CONCEPT, BUT ALSO THE DIRECT PARTICIPATION IN WORKING GROUP DISCUSSION OF US TREASURY EXPERTS IN BOTH CURRENCY AND ACCOUNTING MATTERS. WE BELIEVE IT WOULD BE IMPORTANT FOR THE WG TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NATO 03990 03 OF 03 242055Z

HAVE THE FIRST-HAND VIEWS OF THE EXPERTS AND TO GIVE TREASURY REPRESENTATIVES AN OPPORTUNITY TO DEAL DIRECTLY WITH REPRESENTATIVES OF THE HOST COUNTRIES ON WHOM THE ADDITIONAL ACCOUNTING BURDEN WOULD FALL. DISCUSSIONS WITH OUR NATO COLLEAGUES COULD PERHAPS BE EASED IF TREASURY OFFICIALS WOULD PREPARE THE WAY BY DISCUSSIONS WITH THEIR NON-"SNAKE" COLLEAGUES IN NATIONAL CAPITALS (CANADA, NORWAY, GREECE AND TURKEY, WITH ITALY AND THE UK EXPECTED TO AGREE TO THE NEW US POSITION). IF THE INITIAL PROPOSAL COULD BE PROVIDED SHORTLY, WE WOULD EXPECT TO BE ABLE TO HOLD WORKING GROUP MEETINGS AS EARLY AS OCTOBER. BENNETT

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Sent Date: 24-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977NATO03990
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: N/A
Expiration:
Film Number: n/a
Format: TEL
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770521/aaaaasho.tel
Line Count: 361
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE
Message ID: cf3dd18a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 STATE 113771, 180208Z MAY 77, 77 USNATO 1175, 041010Z MARCH 77., SUMMARY WE NOTIFIED THE INFRASTRUCTU, 24 MAY OF POSITION STATED PARA 1
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05-Apr-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2384149
Secure: OPEN
Status: NATIVE
Subject: INFRASTRUCTURE USE OF REALISTIC CURRENCY EXCHANGE RATES TO ESTABLISH VALUE OF THE INFRASTRUCTURE ACCOUNTING UNIT (IAU)
TAGS: MARR, NATO
To: SECSTATE WASHDC WASHDC MULTIPLE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/cf3dd18a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

